Revenue Sources
FY 1981-84

Alaska
Department of Revenue

January 1982

Jay Hammond, Governor

ALASKA'S REVENUE SOURCES

Compiled by Research Section

Department of Revenue

Table of Contents

Introduction

In accordance with Alaska Statute 37.07.060(b)(4) the Revenue Source Book is compiled annually to assist the Governor in formulating a proposed comprehensive financial plan for presentation to the State Legislature. Since fiscal year (FY) 1975, responsibility for compiling and publishing this summary of State Revenues has come under the Department of Revenue's jurisdiction. Within the publication are shown prior year actuals, revised current year estimates, and upcoming year projections.

The State receives three major classes of income: Unrestricted, Restricted, and Special Fund Revenues.

1. Unrestricted Revenues are paid into the General Fund and may be appropriated for any purpose. These receipts are listed in the Source Book by type; i.e., Taxes, License and Permits, etc..

2. Restricted Revenues are those received for specific purposes, primarily from the Federal Government. Only budget category totals are given.

3. Special Fund Revenues are those received into statutorily established funds such as the International Airports Revenue Fund.

Anticipated State income is projected through the use of a number of data sources: 1) An econometric model developed by the Department of Revenue's Research Section to forecast unrestricted non-petroleum revenues, 2) A petroleum revenue forecasting model created by the Department's Petroleum Revenue Division, and 3) Estimates from individual State agencies.

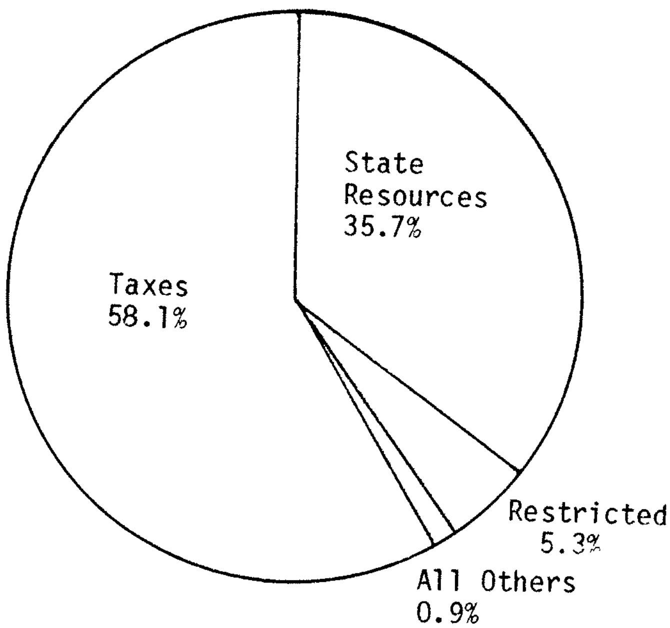
The Department of Revenue thanks the various State agencies for their cooperation in computing anticipated revenues for publication in this document.

Revenue Summary
In Thousands of Current Dollars

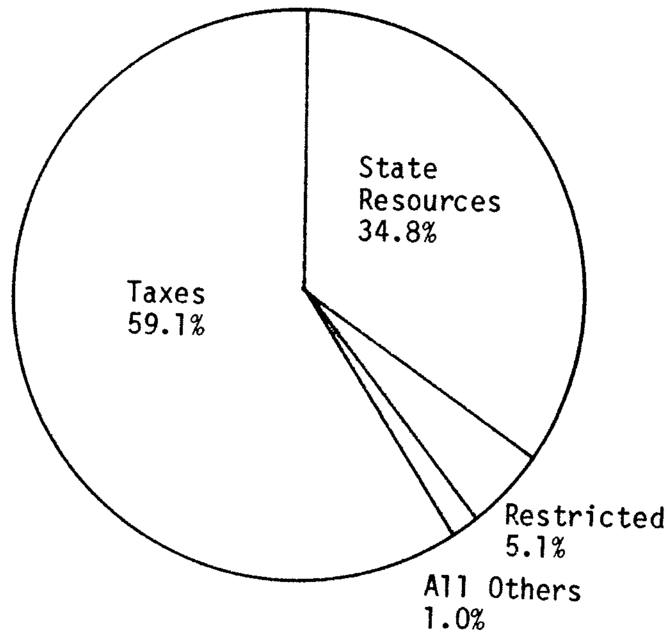
	FY 1981 Actual January	FY 1982 Estimate January	FY 1983 Estimate January	FY 1984 Estimate January
Total General Fund Unrestricted Revenues (p. 7)	3,718,200	4,335,800	4,133,700	5,005,300
Total General Fund Restricted Revenues (p. 12)	209,000	231,500	239,200	242,400
Total General Fund Revenues (p. 12)	3,927,200	4,567,300	4,372,900	5,247,700
Alaska Permanent Fund (p. 14)	1,285,100	2,225,800	444,300	538,900

General Fund Components
Historical Comparison

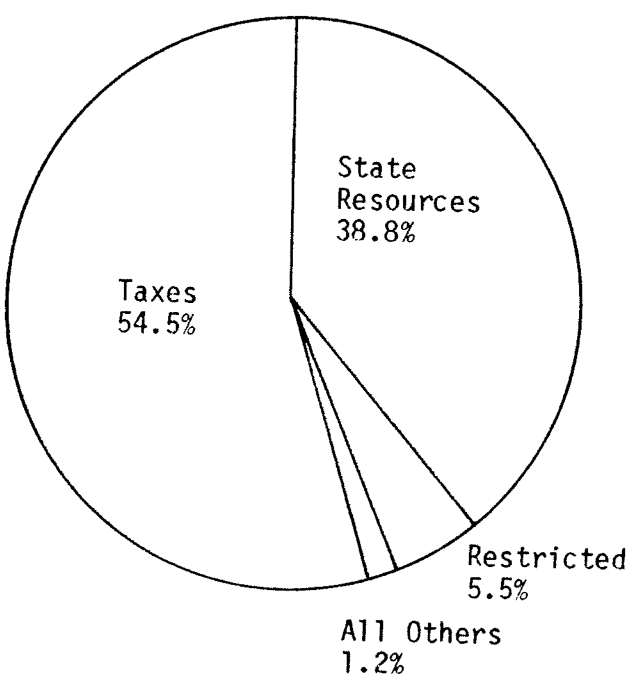
FY 81 ACTUAL



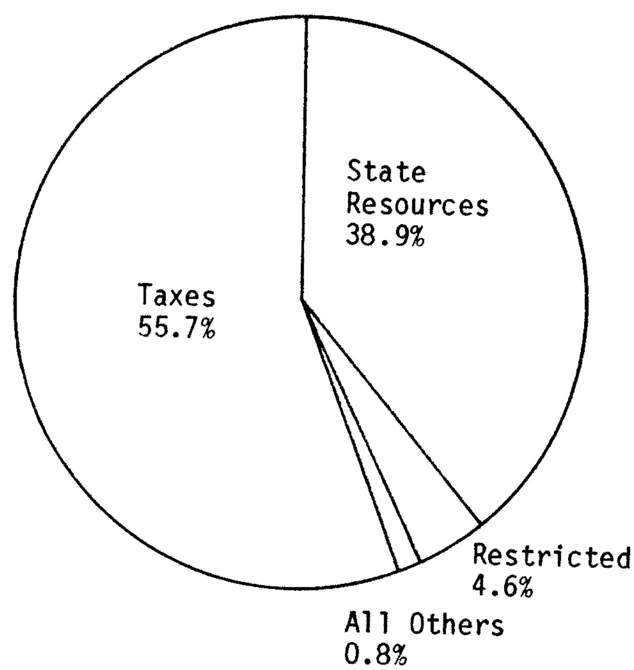
FY 82 PROJECTION



FY 83 PROJECTION



FY 84 PROJECTION



General Fund Unrestricted Revenues

In Thousands of Current Dollars

	FY 1981 Actual January	FY 1982 Estimate January	FY 1983 Estimate January	FY 1984 Estimate January
Taxes				
Income				
Corporate-General (1)	34,800	31,000	35,000	39,000
Corporate-Petroleum (2)	860,100	713,000	304,000	360,000
Gross Receipts				
Alaska Business License	5,400	5,500	5,500	5,500
Fish-Canned Salmon	5,900	6,200	6,000	6,000
Fish-Shorebased	11,000	11,200	11,000	11,000
Fish-Floating	3,800	4,000	4,000	4,000
Salmon Enhancement	-0-	2,000	2,400	2,400
Insurance Companies	10,600	11,300	11,500	11,500
Other	1,200	1,300	1,400	1,400
Severance				
Gravel, Timber, etc.	2,700	2,500	2,500	2,500
Oil & Gas Production(3)(4)	1,169,900	1,718,000	1,819,000	2,213,400
Oil & Gas Conservation	300	700	700	700
Property		143.7	141.6	153.2
Oil & Gas(5)	143,000	155,000	157,700	225,000
Vehicle Registration	200	200	200	200
Sale/Use				
Alcoholic Beverages	8,300	8,500	9,000	9,000
Fuel Taxes-Aviation	4,100	4,300	4,500	4,700
Fuel Taxes-Highway	15,600	18,000	18,500	19,000
Fuel Taxes-Marine	3,500	3,600	3,800	4,000
Tobacco Products	1,700	1,800	1,900	1,900
Other				
Estate	500	500	500	500
Total Taxes	2,282,600	2,698,600	2,399,100	2,921,700
Licenses & Permits				
Business	9,100	9,900	11,000	12,100
Non-Business	12,200	12,500	13,000	13,500
Total Licenses & Permits	21,300	22,400	24,000	25,600
Intergovernmental Receipts				
Federal Shared Revenues(6)(7)	8,500	18,200	9,900	10,000
State Resource Revenue				
Sale/Use				
Bonus Sales(8)(9)(10)	7,600	800	-0-	-0-
Investment Earnings	227,800	280,300	315,000	375,000
Rents(9)(10)	5,400	5,500	5,500	5,500
Royalties(3)(6)(11)	1,118,500	(12) 1,258,800	1,325,200	1,608,800
Sale of State Property	4,800	5,500	5,500	5,500

icilities Related Charges				
Airports	1,100	1,200	1,200	1,200
Ferry System-Southeast	21,000	23,900	26,300	28,900
Ferry System-Southwest	3,400	3,500	3,800	4,100
Other	3,700	4,000	4,500	4,700
Service Related Charges				
Court System	2,900	3,100	3,300	3,500
Other	4,100	4,300	4,500	4,800
Total State Resources Revenues	1,400,300	1,590,900	1,694,800	2,042,000
Miscellaneous Revenues	5,500	5,700	5,900	6,000
Total Unrestricted Revenues	3,718,200	4,335,800	4,133,700	5,005,300

(1) Nonpetroleum corporate income tax estimates have declined for ~~two~~ three reasons: 1) tax rates have been converted to a sliding scale with effective rates lowered for most corporations (Ch. 116 SLA 1981); and 2) the new accelerated depreciation rates enacted on a federal level will be automatically effective for these corporations (Economic Recovery Tax Act of 1981 - Pub. L. 97-34, 8/13/81).

(2) The reasons for the notable decrease in the Corporate Income Petroleum Tax are 1) the change in tax law (Ch. 116 SLA 1981) passed during the 1981 legislative session which shifted revenue from the income tax to the oil and gas production tax and 2) the current softening in oil prices.

(3) If the TAPS tariff negotiations or proceedings fail to materialize in favor of the State, then the aforementioned total revenues will have to be reduced $80 million in FY 83 and $200 million in FY 84. The current forecast assumes a $5.62 TAPS tariff for FY 83 which is 59¢ less per barrel than the prevailing $6.21 TAPS tariff, and a $4.74 TAPS tariff for FY 84 which is $1.47 less per barrel.

(4) Due to the tax law change (Ch. 116 SLA 1981) the nominal tax rates increased from 12.25% to 15.0%.

(5) The North Slope Borough's local property tax for 1981 was increased to 91.54 mills from 60.81 mills for 1980. This assessment is a credit against the state tax. Thirty mills of the new rate were for the Borough's operating budget and 61.54 mills for debt service. These are not assumed to decline for 1982, 1983, or 1984.

(6) Net of 25 percent Permanent Fund contribution.

(7) Includes estimated revenue ($13.5 million) due to State's winning recent U.S. Supreme Court decision regarding the Kenai Moose Range royalty distribution; however, payment is not expected until FY 82. FY 82, FY 83, and FY 84 figures reflect the State's 90 percent entitlement.

(8) The Department of Natural Resources projects additional lease sales to be held in 1982,1983, and 1984. However, bonus bids are impossible to anticipate prior to sales and therefore no estimates are included.

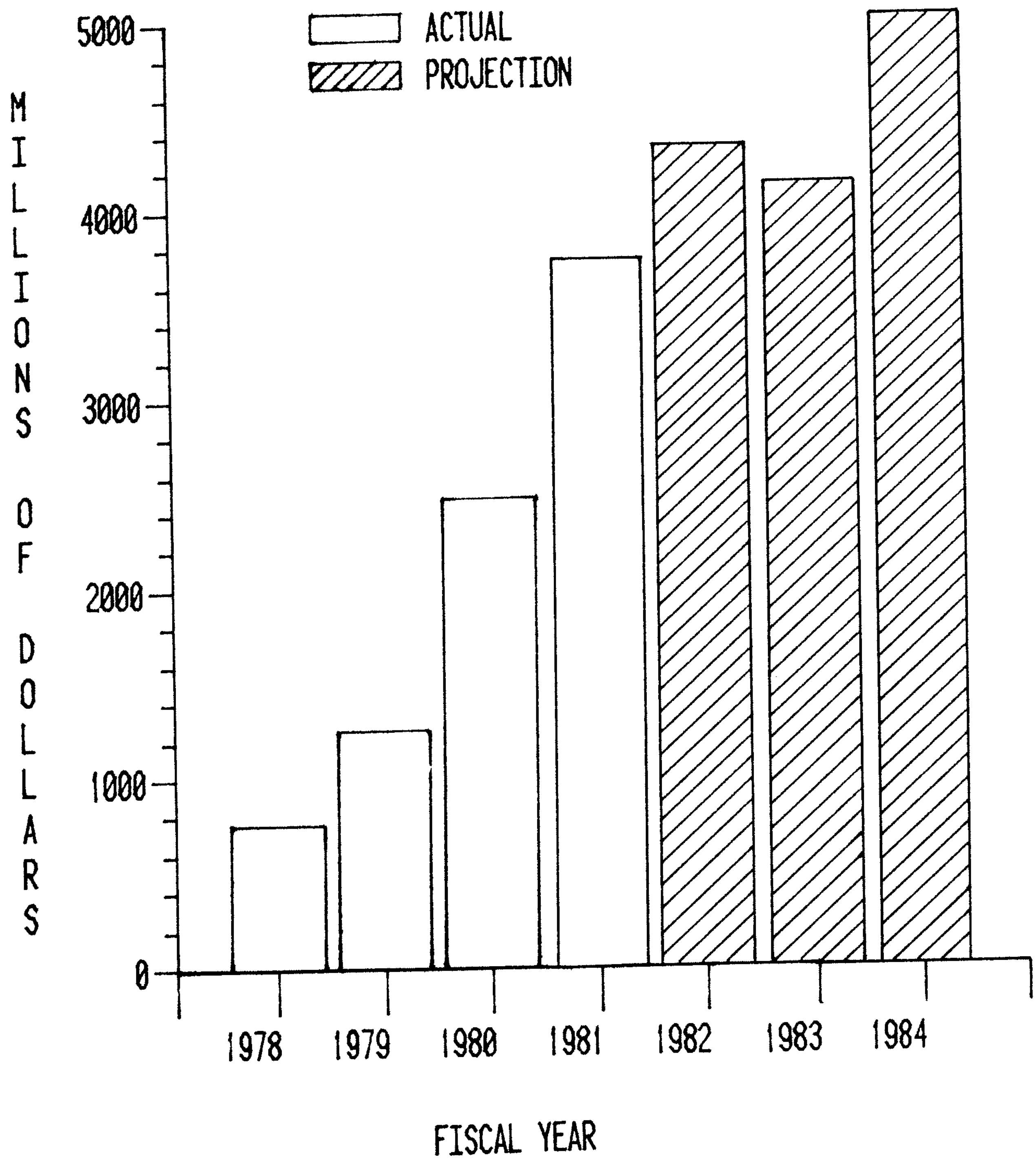
(9) Net of Permanent Fund contribution by Ch. 18 SLA 1980.

(10) Reflects lease sales of $12.8 million held September 16, 1980, $4.3 million held May 13, 1981, and $1.5 million held August 25, 1981.

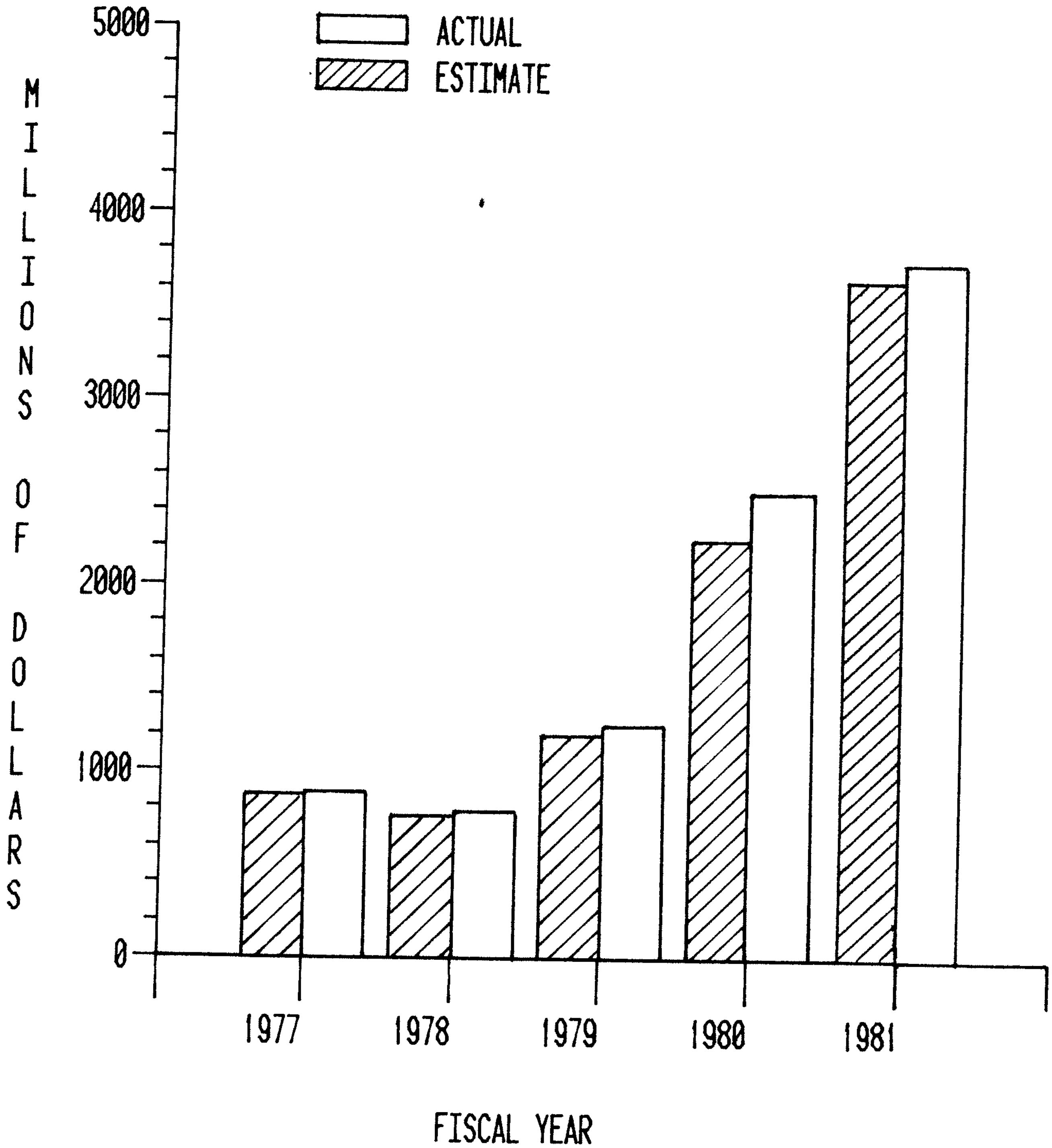
(11) The State is currently in litigation with Charter Oil Corporation over billings for purchases of royalty oil. The aforementioned numbers include approximately $60.0 million from July to December 1981 which has not yet been realized.

(12) The FY 1981 royalty value reflects the retroactive payment due the State, by the North Slope producers, for the recently negotiated settlement regarding field costs previously deducted from the royalty wellhead value.

Unrestricted Revenues



Unrestricted Revenues
Historical Comparison



Revenue Breakdown

The total General Fund unrestricted revenues for Fiscal Years 1981, 1982, 1983, and 1984 are projected to be $3,718.2 million, $4,335.8 million, $4,133.7 million, and $5,005.3 million, respectively.

The following table depicts a breakdown of General Fund unrestricted revenues in terms of petroleum versus non-petroleum revenues based on the January estimates:

Petroleum vs. Non-Petroleum Revenues

(In Millions of Current Dollars)

Petroleum Revenues

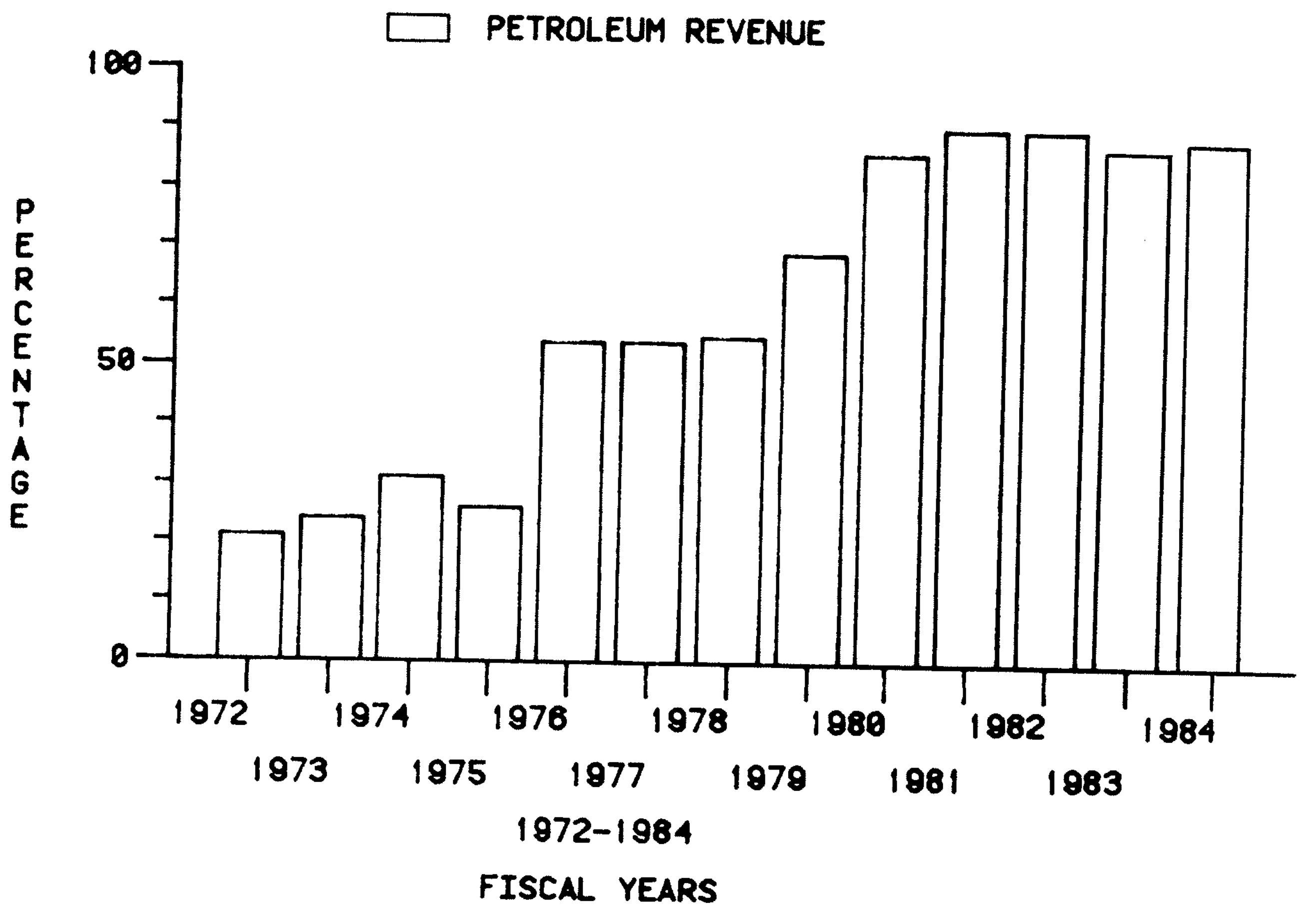
	FY 81	FY 82	FY 83	FY 84
Corporate Petroleum	860.1	713.0	304.0	360.0
Severance Tax	1,170.2	1,718.7	1,819.7	2,214.1
Royalties	1,118.5	1,258.7	1,325.2	1,608.8
Property Tax	143.0	155.0	157.7	225.0
Bonus Sale	7.6	0.8	0.0	0.0
	3,299.4	3,846.3	3,606.6	4,407.9

Non-Petroleum Revenues

	FY 81	FY 82	FY 83	FY 84
Taxes	109.3	111.9	117.7	122.6
Licenses & Permits	21.3	22.4	24.0	25.6
Intergovernmental Receipts	8.5	18.2	9.9	10.0
State Resources Revenues	274.2	331.3	369.6	433.2
Miscellaneous Revenues	5.5	5.7	5.9	6.0
	418.8	489.5	527.1	597.4
Total	3,718.2	4,335.8	4,133.7	5,005.3

Petroleum Revenues

Historical Comparison of Gross General Fund Unrestricted Petroleum Revenues as Percentages of Gross General Fund Unrestricted Revenues (in Millions of Current Dollars)



Fiscal Year	Total General Fund Unrestricted Revenues	Total General Fund Unrestricted Petroleum Revenues	Percent
1972	219.2	47.1	21
1973	208.1	49.3	24
1974	255.1	79.3	31
1975	333.3	87.6	26
1976	709.7	386.1	54
1977	874.1	472.5	54
1978	787.4	430.3	55
1979	1,178.5	819.0	69
1980	2,632.6	2,253.5	86
1981*	3,718.2	3,299.4	89
1982**	4,335.8	3,846.3	89
1983**	4,133.7	3,606.6	87
1984**	5,005.3	4,407.9	88

*Actual
**Estimate

Restricted Revenues

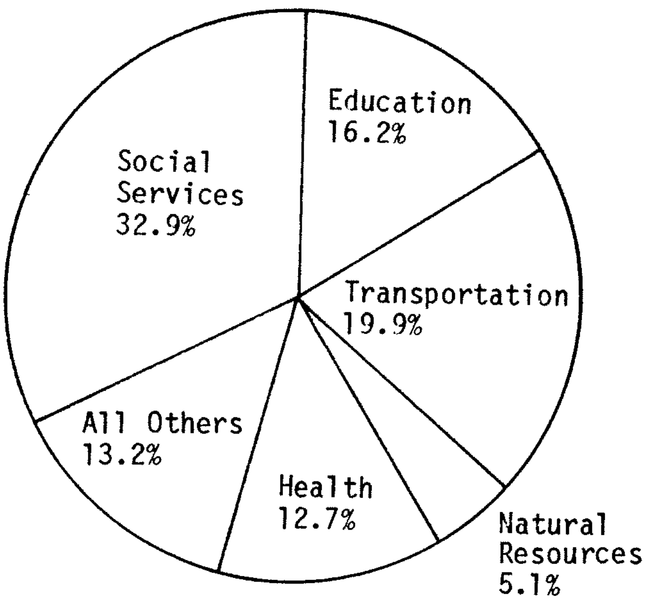
In Thousands of Current Dollars

	FY 1981 Actual January	FY 1982 Estimate January	FY 1983 Estimate January	FY 1984 Estimate January
Federal Grants-in-Aid				
I. Education	33,000	37,400	37,900	37,900
II. Social Services	68,700	105,700	115,300	119,700
III. Health	26,500	3,500	2,400	2,100
IV. Natural Resources	8,300	13,100	11,500	10,500
V. Public Protection	5,200	4,900	5,400	5,700
VI. Administration of Justice	1,900	1,200	1,200	1,200
VII. Development	5,700	3,900	3,200	3,200
VIII. Transportation	39,900	34,700	31,400	31,400
IX. General Government	2,200	100	100	100
Total Federal Grants-in-Aid	191,400	204,500	208,400	211,800
Other Grants-in-Aid				
I. Education	800	300	400	400
II. Social Services	100	2,700	3,000	3,200
III. Health	100	-0-	-0-	-0-
IV. Natural Resources	2,400	8,000	12,600	12,100
V. Public Protection	1,800	2,400	2,400	2,400
VI. Administration of Justice	100	100	100	10
VII. Development	800	800	800	80
VIII. Transportation	1,600	1,100	900	900
IX. General Government	1,800	3,600	2,500	2,600
Total Other Grants-in-Aid	9,500	19,000	22,700	22,500
Miscellaneous Restricted Revenue-All Categories	8,100	8,000	8,100	8,100
Total Restricted Revenue 1/	209,000	231,500	239,200	242,400
Total Unrestricted Revenue	3,718,200	4,335,800	4,133,700	5,005,300
Total General Fund Revenue	3,927,200	4,567,300	4,372,900	5,247,700

1/ Restricted Revenue figures may not agree with those shown in the Governor's budget due to categorical differences between the budget and accounting system.

Restricted Revenues
Historical Comparison

FY 81 ACTUAL



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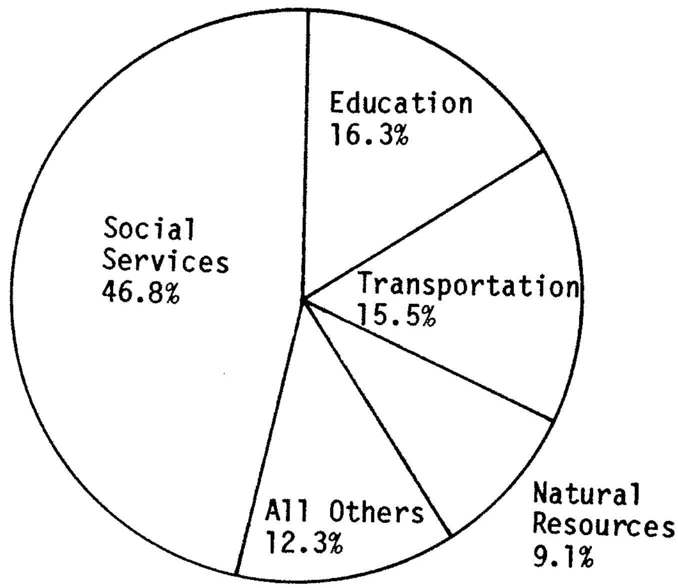

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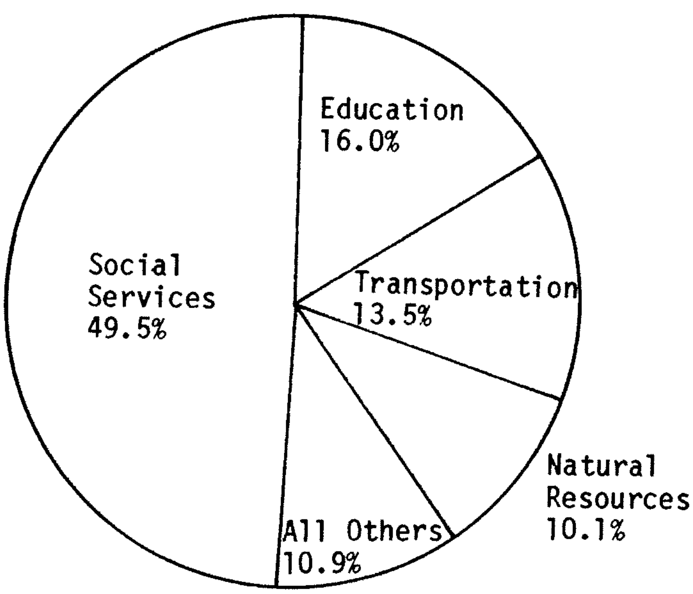

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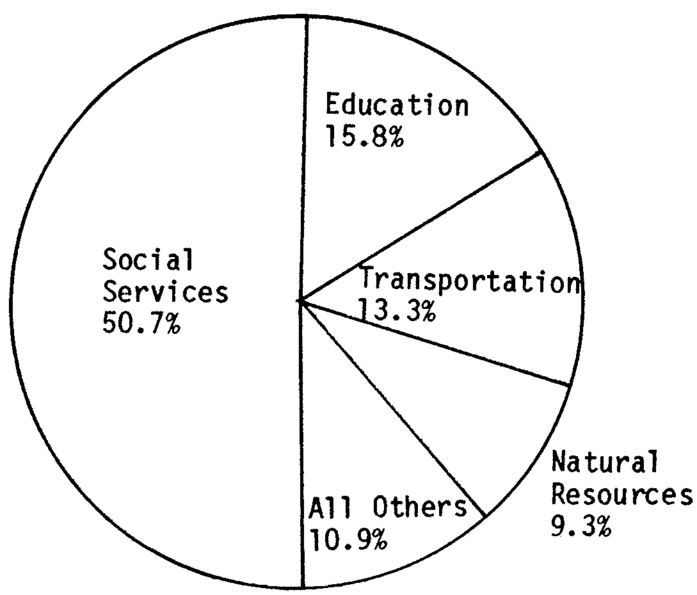


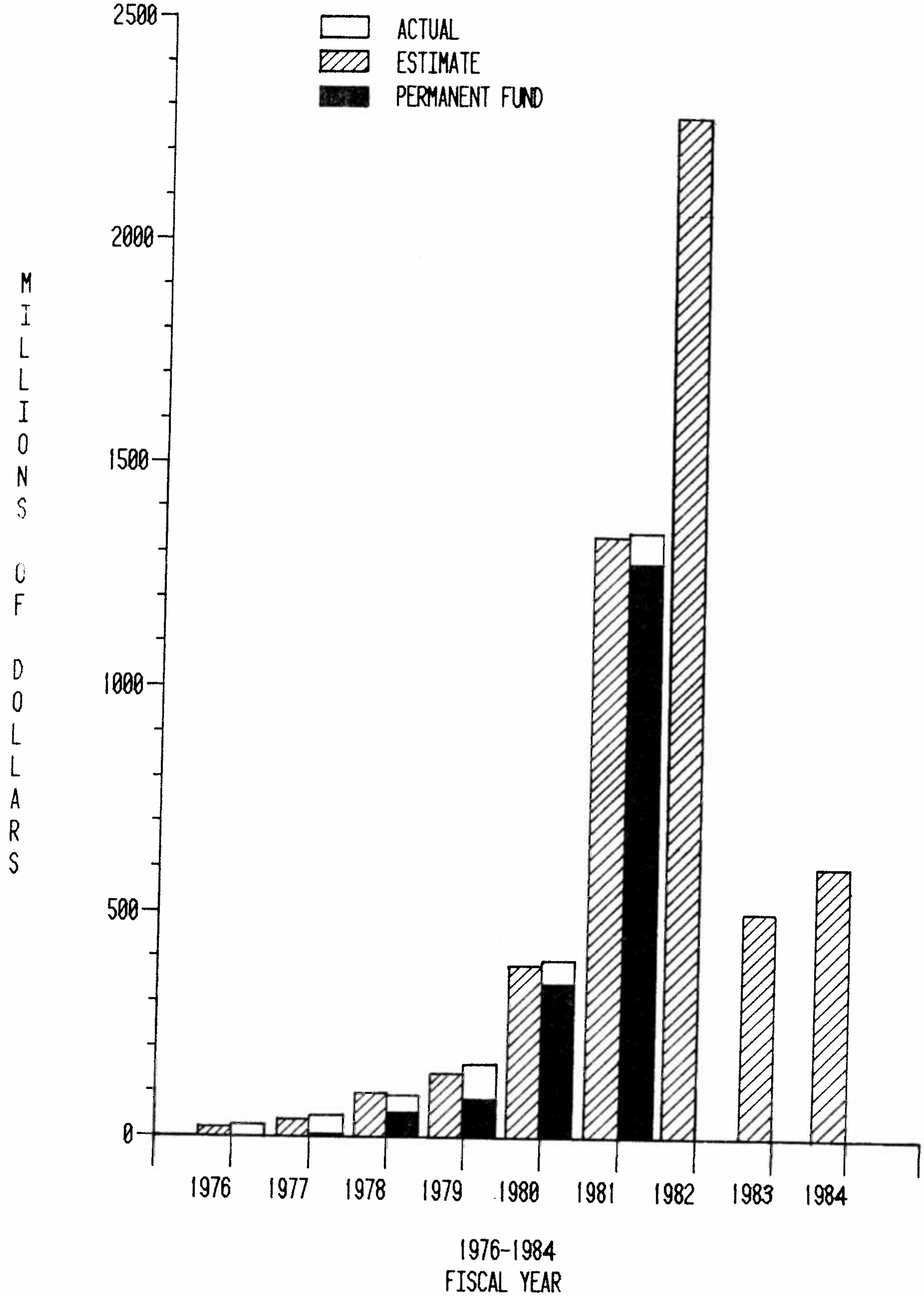
Special Funds

In Thousands of Current Dollars

	FY 1981 Actual January	FY 1982 Estimate January	FY 1983 Estimate January	FY 1984 Estimate January
Enterprise Funds				
Agriculture Loan Fund	700	1,100	2,000	2,300
Alternative Technology and Energy Loan Fund	-0-	200	500	800
Bulk Fuel Loan Fund	100	100	100	100
Child Care Facility Loan Fund	-0-	-0-	-0-	-0-
Commercial Fish Loan Fund	500	2,100	2,500	2,900
Fisheries Enhancement Loan Fund	-0-	-0-	-0-	-0-
Fisheries Mortgage and Note Fund	-0-	-0-	100	300
Fisheries Product Loan Fund	-0-	-0-	-0-	-0-
Historical District Loan Fund	-0-	-0-	-0-	-0-
International Airport Revenue Fund	28,800	30,500	32,400	34,600
Medical Malpractice Loan Fund	100	200	200	200
Mining Loan Fund	-0-	-0-	-0-	-0-
Residential Energy Conservation Loan Fund	-0-	100	300	500
Scholarship Loan Fund	300	500	800	1,600
Small Business Loan Fund	2,800	4,000	4,200	4,000
Tourism Loan Fund	-0-	-0-	-0-	-0-
World War II Veterans Loan Fund	2,100	1,700	1,500	1,300
Total Enterprise Funds	35,400	40,500	44,600	48,600
Special Revenue Funds				
Alaska Permanent Fund (1)(2)(3)(4)	1,285,100	2,225,800	444,300	538,900
Federal Revenue Sharing Fund (5)	3,800	-0-	-0-	-0-
Fish and Game Fund	11,300	7,500	8,000	8,300
Marine Coastal Damage Fund	-0-	-0-	-0-	-0-
School Fund	2,800	3,000	3,200	3,200
Training & Building Fund	300	500	400	400
Total Special Revenue Funds	1,303,300	2,236,800	455,900	550,800
Total Special Funds	1,338,700	2,277,300	500,500	599,400

1) Includes $900,000,000 appropriated to the Alaska Permanent Fund in FY 1981.
2) Includes $1,800,000,000 appropriated to the Alaska Permanent Fund in FY 1982.
3) Includes estimated revenue ($4.0 million) due to State's winning recent U.S. Supreme Court decision regarding the Kenai Moose Range royalty distribution; however, payment is not expected until FY 82. FY 82, FY 83, and FY 84 figures reflect the State's 90 percent entitlement.
4) The FY 1981 Permanent Fund Contribution reflects the retroactive payment due the State, by the North Slope producers, for the recently negotiated settlement regarding field costs previously deducted from the royalty wellhead value.
5) Federal funding expired September 30, 1980.

Special Funds
Historical Comparison



Alaska Permanent Fund Contributions

Inception to Date

	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
July		794,995.01	7,502,051.26	10,692,715.90	73,815,667.41	131,800,154.14
August		2,521,153.06	5,919,366.32	17,708,447.48	118,431,979.94	146,232,595.66
September		4,021,045.20	5,844,160.01	17,327,178.30	181,873,959.53	311,522,554.20
October		4,831,261.69	5,895,954.01	16,537,475.13	80,318,945.90	74,715,699.12
November		4,979,386.81	5,983,431.49	17,457,131.59	81,058,413.83	238,409,719.66
December		4,217,990.44	6,157,251.64	38,079,084.53	227,586,680.94	
January		4,215,503.35	6,464,609.73	113,926,615.55	130,570,546.51	
February		4,145,894.12	6,785,168.90	21,060,774.83	133,457,322.86	
March	1,530,416.42	3,648,367.18	6,292,339.61	20,607,758.22	136,547,664.57	
April	815,439.57	5,088,252.18	7,953,713.53	23,040,206.02	41,284,063.24	
May	788,450.99	5,603,327.04	9,065,491.87	21,783,285.17	38,812,822.79	
June	822,403.54	6,376,079.60	10,043,535.99	26,565,267.13	41,344,707.04	
Total	3,956,710.52	50,443,255.68	83,907,074.36	344,785,939.85	1/ 1,285,102,774.56	902,680,722.78
Cumulative Fund Balance as of November 30, 1981						2,670,876,477.75

Interest Earnings Transferred to General Fund

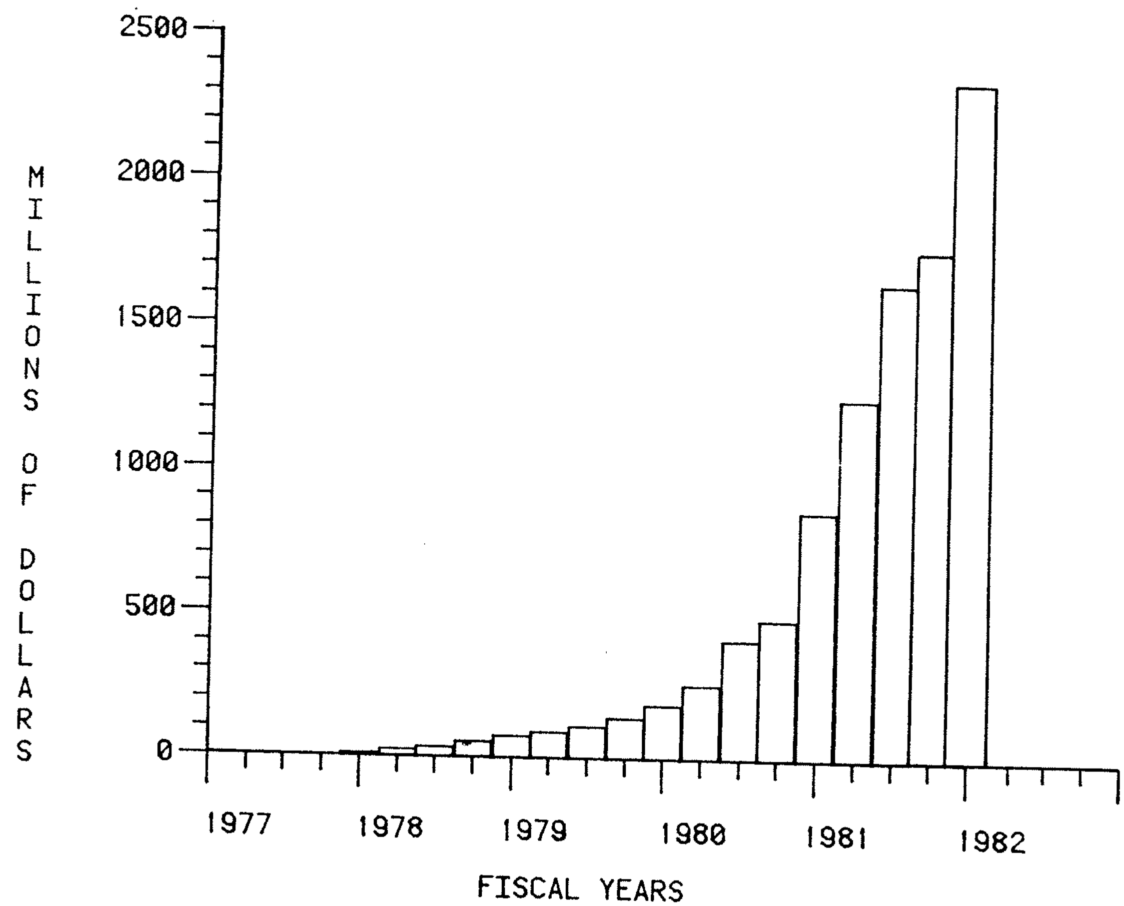
	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981
First Quarter (July-Sept.)		12,370.79	605,651.99	1,938,034.46	9,234,109.73
Second Quarter (Oct.-Dec.)		148,250.03	1,282,489.03	3,428,220.15	
Third Quarter (Jan.-Mar.)		115,436.96	962,645.91	6,682,092.76	
Fourth Quarter (Apr.-June)	27,019.00	624,376.03	2,852,138.75	2,393,102.77	2/ 54,000,000.00
Total	27,019.00	900,433.81	5,702,925.68	14,441,450.14	63,234,109.73
Total Amount of Income Transferred to General Fund as of June 30, 1981					84,305,938.36

1/ Includes $114,546,830.13 as 25 percent of bonuses and lease rentals for the undisputed State portion of the Beaufort Sea lease sale. Litigation over the legality of that sale is still pending.

2/ [illegible]nother $9,234,109.73 was transferred during Sept[illegible]r 1980 for the balance due the General Fund in [illegible] 1980 [illegible]om the Permanent Fund as provided for by law.

Alaska Permanent Fund

Historical Comparison of Cumulative Balance



<u>Alaska Permanent Fund</u>

The Alaska Permanent Fund was established by a constitutional amendment effective February 21, 1977. The amendment stated that contributions to the fund must consist of at least 25 percent of mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments and bonuses received by the State. Recently enacted legislation (Ch. 18 SLA 1980) has modified this contribution rate to the Permanent Fund from 25 percent to 50 percent. As a result, any future revenues transferable from Beaufort Sea production and any future lease sale bonuses will be subject to the 50 percent rate. During FY 1981, a special appropriation (Ch. 35 SLA 1980) appropriated $900 million from the General Fund to the Permanent Fund. Similarly, an additional $1.8 billion was appropriated (Ch. 61 SLA 1981) for FY 1982 with payments beginning July 1, 1981.

ECONOMIC RECOVERY TAX ACT OF 1981

- HIGHLIGHTS -

By

Veda Christina Klein, Economist

The following report is a synopsis of the tax act provisions affecting individual and corporate taxpayers.

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ECONOMIC RECOVERY TAX ACT OF 1981
HIGHLIGHTS

ECONOMIC RECOVERY TAX ACT OF 1981
HIGHLIGHTS

PART I
PROVISIONS PRIMARILY AFFECTING INDIVIDUALS

Introduction

The Economic Recovery Tax Act of 1981 provides some of the largest tax reductions in U.S. history. Major reductions have been made for individuals by reductions in tax rates, estate and gift tax changes, and improved savings incentives.

Among the principal income tax changes affecting individuals are the following:

- an across-the-board rate reduction of approximately 23 percent, phased in over 33 months.

- reduction of the maximum tax rate on all income to 50 percent.

- reduction of the maximum tax rate on long-term capital gains to 20 percent after June 9, 1981.

- easing of the higher tax rates on married couples filing a joint return.

I. Individual Income Tax Reductions

Rate Reductions

Income tax rates are reduced in every tax bracket from rates in effect for 1980, for an across-the-board 25 percent phased in reduction, according to the following schedule: 1981-1 1/4 percent; 1982-approximately 11 percent; 1983-approximately 19 percent; and 1984-approximately 23 percent. The top marginal rate on all classes of income is reduced from 70 percent to 50 percent.

INDIVIDUAL INCOME TAX REDUCTIONS

Taxable income bracket	1981 (pre-credit)		1982		1983		1984	
	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket
$0–$3,400	$0	0%	$0	0%	$0	0%	$0	0%
$3,400–$5,500	0	14	0	12	0	11	0	11
$5,500–$7,600	294	16	252	14	231	13	231	12
$7,600–$11,900	630	18	546	16	504	15	483	14
$11,900–$16,000	1,404	21	1,234	19	1,149	17	1,085	16
$16,000–$20,200	2,265	24	2,013	22	1,846	19	1,741	18
$20,200–$24,600	3,273	28	2,937	25	2,644	23	2,497	22
$24,600–$29,900	4,505	32	4,037	29	3,656	26	3,465	25
$29,900–$35,200	6,201	37	5,574	33	5,034	30	4,790	28
$35,200–$45,800	8,162	43	7,323	39	6,624	35	6,274	33
$45,800–$60,000	12,720	49	11,457	44	10,334	40	9,772	38
$60,000–$85,600	19,678	54	17,705	49	16,014	44	15,168	42
$85,600–$109,400	33,502	59	30,249	50	27,278	48	25,920	45
$109,400–$162,400	47,544	64	42,149	50	38,702	50	36,630	49
$162,400–$215,400	81,464	68	68,649	50	65,202	50	62,600	50
$215,400 and over	117,504	70	95,149	50	91,702	50	89,100	50

Withholding Reduced

Consistent with income tax reductions, withholding is reduced by:

5 percent	October 1, 1981
10 percent	July 1, 1982
10 percent	July 1, 1983

Maximum Tax Rate Reduced

The Act reduces the maximum rate on all classes of income from 70 percent to 50 percent.

Long-term Capital Gains Rate Reduced

The maximum tax rate on long-term capital gains has been reduced from 28 percent to 20 percent, effective for sales and exchange after June 9, 1981.

Top Alternative Minimum Tax Rate Reduced

The top alternative minimum tax rate is reduced from 25 percent to 20 percent on alternative minimum taxable income over $100,000 after 1981.

Indexing

Beginning January 1, 1985, indexing (adjusting to changes in the Consumer Price Index for inflation) of personal income tax brackets, the zero bracket amount (i.e., income reduced by specified amounts such as $2,300 for single taxpayers) and of personal exemptions amounts will occur. These items will be adjusted annually by the increase in the Department of Labor's Consumer Price Index for the 12 months ended September 30 compared to the Consumer Price Index for the previous year ending September 30.

Reduction of the "marriage penalty"

Under prior law, a 2-earner married couple generally has paid more income tax than if the spouses were single. Now married couples filing a joint return are allowed a deduction in computing their adjusted gross income (income-minus specified items-on which tax is figured) equal to 10 percent (5 percent in 1982) of the lesser of (1) $30,000 or (2) the lower earning spouse's "qualified earned income". This could result in a maximum deduction of adjusted gross income of $1,500 in 1982, and after 1982, of $3,000.

Child and Dependent Care Credit and Dependent Care Assistance Exclusion

A higher maximum amount of expenditures may be taken into consideration in claiming a credit. The maximum credit is $1,440 for taxpayers with adjusted gross income of $10,000 or less, and $960 for taxpayers with adjusted gross income greater than $28,000.

Adoption Expense Deduction

Under present law, adoption related expenses are non-deductible personal expenses. The Act permits taxpayers who itemize to include a deduction up to $1,500 for "qualified adoption expenses" in connection with a "Child with special needs" (i.e., a child with respect to whom adoption assistance payments are made under the Social Security Act).

Charitable Contributions Deduction for Non-Itemizers

A charitable contribution deduction of $25 for '82, '83, $75 for '84, 50 percent of all contributions in '85, and 100 percent of all contributions in '86, is phased in. This provision expires after 1986.

Gain on Sale of Residence: Reinvestment Period Extended and One-Time Exclusion Increased

The following changes have been made in the present law taxing the gain on sale or exchange of a residence:

In the past, recognition of gain on the sale of a taxpayer's principal residence has been deferred if a new principal residence (of equal or greater value) has been purchased and used by the taxpayer within a period beginning 18 months before and ending 18 months after, the sale. This replacement period - deferment period of capital gains tax - has been extended to 2 years before and after sale, and is effective July 20, 1981. It is also effective for sales made before July 20, 1981, if the replacement period has not yet expired on that date.

The second major change affects the gain excluded from gross income by individuals age 55 or over on the sale of their principal residence. Previously, these individuals were allowed an exclusion of up to $100,000 of gain on the sale of their principal residence. This amount has been changed to $125,000 after July 20, 1981.

Income Earned Abroad

To encourage Americans to work overseas, the Act increases the exclusions for foreign earned income. The following schedule applies to exclusions from gross income if the taxpayer meets foreign residency specifications:

Tax Year	Annual Exclusion
1982	$ 75,000
1983	80,000
1984	85,000
1985	90,000
1986 and after	95,000

II. Major Changes in Estate and Gift Tax Provisions

The following provisions are effective for gifts made, or for estates of decendents dying after December 31, 1981.

Unified Credit and Maximum Rate

The $47,000 lifetime unified credit for estate and gift tax purposes which exempted transfers up to $175,625 has been increased to the following:

Unified Credit Calendar Year	Unified Estate and Gift Tax Credit Increased to:	Exemption Equivalent
1981	$(47,500)	$(175,625)
1982	62,800	225,000
1983	79,300	275,000
1984	96,300	325,000
1985	121,800	400,000
1986	155,800	500,000
1987 & thereafter	192,800	600,000

The maximum gift and estate tax is reduced from 70 percent to 65 percent in 1982, 60 percent in 1983, 55 percent in 1984, and 50 percent thereafter.

Unlimited Marital Deduction

All qualified gift transfers and bequests to spouses are now deductible in determining the tax base for gift and estate tax purposes.

Jointly Held Property

One-half the property jointly owned by husband and wife is included in the gross estate of the first spouse to die, and the property passes tax free to the surviving spouse at the death of the first spouse.

Increase in Annual Gift Tax Exclusion

The annual gift tax exclusion is increased from $3,000 to $10,000 per donee ($6,000 to $10,000 if joint husband/wife gifts are made). An unlimited exclusion for amounts paid for the benefit of a donee for medical expenses and school tuition is also provided.

Annual Payment of Gift Tax

Gift tax returns are filed, and any gift tax payment made, only on an annual basis, and will be due on April 15 of the year following the year of the gift.

Transfers Within 3 Years of Death

Most gift transfers made within 3 years before death are no longer included in the gross estate at the time of death.

Deferral of Estate Tax Payments for Closely-Held Businesses

Estate taxes attributable to interests in closely-held businesses may be paid, at the election of the executor, over a period as long as 15 years, for amounts over 35 percent (formerly 65 percent), of the adjusted gross estate, so long as at least 50 percent of the decendent's interest in the business is not disposed of. In order to qualify for long-term capital gain treatment, the value of the stock must exceed 35 percent (formerly 50 percent) of the gross estate, with regard to amounts paid to redeem the stock held by the decendent in a closely-held corporation.

Current Use Valuation

Previously, real property such as family farms, timberland, and real property were included in a decendent's estate at fair market value (i.e., highest and best use value). However, if certain requirements are met and the property is passed on to qualified (family) heirs, this real property may be valued on the basis of current use - a value which can be any amount less than fair market value. Previously, the fair market value of this real property could be reduced by as much as $500,000, based on the difference between "current use valuation" and fair market value. This reduction is increased in 1981 to $600,000; in 1982 to $700,000; and in 1983 and thereafter to $750,000.

Orphan Exclusion Repealed

The limited estate deduction for certain bequests to orphaned children is eliminated.

III. Savings Incentives Provisions Retirement Plans for the Self-Employed

These retirement plans (also known as Keogh plans), to which self-employed persons contribute, formerly had an annual deductible contribution limit of $7,500. This limit has been raised to $15,000 annually.

Compensation Limit

The annual compensation (individual earned income) that is recognized for purposes of accruing benefits or determining contributions to retirement plans for the self-employed has been increased from $100,000 to $200,000.

Retirement Plans for Employees (IRA's) - Individual Retirement Accounts

The prohibition against contributions to IRA's by active participants in employer-sponsored qualifed plans or government plans has been removed, and these individuals can now also make contributions to IRA's (Individual Retirement Accounts). The prior limit on contributions to IRA's has been raised from the lessor of $1,500 or 15 percent of earned income, to the lessor of $2,000 or 100 percent of earned income.

Self-employed persons are also permitted to make voluntary contributions. In addition to the maximum Keogh plan limits, self-employed persons can make additional deductible contributions - limited to $2,000 - to IRA or Keogh plans.

Simplified Employee Pensions (SEP's)

SEP's are employer-sponsored individual retirement accounts. The employer is allowed to contribute the lesser of $15,000 or 15 percent of the employee's compensation for the year, and the employee may contribute and deduct the lesser of $2,000 or 100 percent of compensation.

Employee Stock Ownership Plans (ESOP's)

The Act changes the amount of an employer's total deductible contribution to leveraged (typically used for employee take over of ownership) ESOP's from 15 percent of covered payroll to 25 percent. Also, the portion attributable to payment of interest on loans (to purchase employer securities) is deductible in full.

Tax Credit ESOP's

A new payroll-based corporate income tax credit, (i.e., reduction in corporate taxes), is allowed for contributions to an ESOP after 1982. The credit is limited to 1/2 of one percent of compensation paid to employees under the plan for 1983 and 1984, and 3/4's of one percent of compensation paid in 1985 through 1987.

Distributions from ESOP's

A retroactive - to March 29, 1975 - provision of the Act relates to the period during which employer securities must stay in the plan. Distributions, after March 29, 1975, from a tax credit ESOP, made on account of the sale of corporate assets or disposition of a subsidiary are permitted.

Tax Exempt Savings Certificates

The Act creates a new type of savings certificate to be offered by banks and savings and loan associations. These certificates must be issued by a qualified depository institution at 70% of the 52-week Treasury bill rate offered at the last Treasury auction to have occurred in the week preceding the week that the certificate is issued.

A lifetime, one-time only, exemption is allowed of up to $1,000 ($2,000 on a joint return) of interest earned on 1-year certificates issued by a qualified depository institution between October 1, 1981 and December 31, 1982.

The statutory rate for these certificates will have to compete with other exempt types of instruments, including municipal bond funds that could provide better liquidity than the tax exempt certificate.

Dividend Reinvestment of Public Utilities

For dividends distributed in calendar years 1982-85, a domestic public utility corporation may establish a plan under which shareholders who choose to receive a dividend in the form of "qualified" common stock rather than cash or other property may elect to exclude annually up to $750 ($1,500 on a joint return) of the stock dividends from income.

Qualified Group Legal Services Plans

Employer contributions to and benefits provided under a qualified group legal service plan are excluded from employee's income through December 31, 1984.

IV. Tax Straddles

Straddles usually serve the role of risk management in the commodities market, providing a hedge against price fluctuations in the underlying commodity. Since these straddles have been increasingly used by individuals not involved in the actual business of buying and selling commodities, specific provisions of the Act are used to reduce the incentive to invest in these straddles.

The capital gain or loss on "regulated futures contracts" is recognized at year end, and cannot be carried over into the next year to reduce taxes as before. Net losses cannot be carried back to years ending on or before June 23, 1981.

For straddles involving any commodity (except real estate) other than futures, losses can only be carried forward to the succeeding year to the extent of unrealized gains, and deferral rules for the succeeding year apply as well. Previously there was no limitation on the amount of loss that could be deferred.

Treasury Bills Characterized as Capital Assets

The gain or loss from short term U.S. government obligations such as Treasury bills is considered ordinary income and gain or loss will be considered short term capital gain or loss.

IV. Administrative and Miscellaneous Provisions

Interest on Tax Underpayments and Overpayments

Effective February 1, 1982, the interest rate applied to tax deficiencies and overpayments is now based on the annual (adjusted) prime rate rather than 90 percent of that rate.

Changes in Penalties

The Act increases civil penalties for filing false wage withholding allowance information and increases the penalties for willfully filing such false information.

Low Income Housing Incentives

The requirements for non-corporate taxpayers to capitalize and amortize after 1981 contruction period interest and real property taxes for low income housing has been deleted.

Taxpayers may, in certain situations, elect to amortize $40,000 (formerly $20,000) of qualified low-income housing rehabilitation expenditures over a 60-month period. This provision is effective for amounts paid or incurred after December 31, 1980.

PART II

PROVISIONS PRIMARILY AFFECTING BUSINESS

Introduction

The Economic Recovery Tax Act of 1981 provides a major change effecting business taxpayers in the accelerated cost recovery system (ACRS) of depreciation which is intended to provide incentives for investment in plant and equipment.

I. The Accelerated Cost Recovery System (ACRS) Incentive for Plant, Equipment, or Real Property

This system is mandatory and is effective retroactively to January 1, 1981.

Eligible Property

The ACRS rules apply to most tangible (real and personal) depreciable property used in a trade or business (e.g., machinery or equipment, factory buildings, etc.) or held for the production of income (e.g., depreciable real estate held for investment or rental).

Recovery Periods and Rates

There are now 4 general cost recovery periods based on the nature of the assets (i.e., 3, 5, 10 and 15 year classes).

General Description of Each Property Class

3 year - Autos, light trucks, some research and development equipment.
5 year - Most other machinery and equipment, furniture and fixtures, single purpose agricultural structures and petroleum storage facilities.
10 year - Some public utility property, railroad tank cars and residential mobile homes.
15 year - Public utility property.

Optional Recovery Periods and Allowances

If elected for all property in a particular class which is placed in service during a given year, the following "optional" recovery periods may be utilized in lieu of the general recovery periods:

General Cost Recovery Class	Optional Recovery Periods
3 year	3, 5, or 12 years
5 year	5, 12, or 25 years
10 year	10, 25 or 35 years
15 year	15, 35 or 45 years

If optional recovery is elected, straight line depreciation must be used.

Application to Real Property (e.g., residential real property)

For most depreciable real property such as residential real property there is also a 15 year general cost recovery period and also an optional recovery period of 15, 35 or 45 years. In the case of real property, depreciation tables are applied which incorporate two methods (declining balance and straight line) of depreciation, and the percentages for residential property and low income housing are different.

Depreciation Recapture Rules

For nonresidential property, all depreciation under ACRS is recaptured as ordinary income if the general recovery period is used. However, if the optional recovery period, with its straight-line depreciation is elected, there is no recapture of depreciation as ordinary income.

Tax Preference Items

The Act provides two tax preference items with respect to recovery property; for 15 year real property and for leased property in other classes, respectively. Determination of these preferences is required for purposes of computing the "add-on" minimum tax for individuals and corporations. The tax preference for 15 year real property, and for leased recovery property in other ACRS classes, is computed by comparing ACRS recovery allowances with straight-line depreciation taken over the following periods:

General Class	Recovery Period for Computing Tax Preference Item
3 year	5
5 year	8
10 year	15
15 year public utility	22
15 year real property	15

The difference between the ACRS allowance for each class and the straight line amount is the tax preference.

Expensing - Elective Expense Deduction

The "additional" first year depreciation allowance, 20 percent of qualifying property limited to $2,000 ($4,000 for jointly-filing individuals) has been repealed for property placed in service after 1980 and replaced with a new "limited expensing" provision first effective in 1982. Upon election in the taxpayer's return, specified "qualifying' property additions up to the following amounts may be immediately expensed:

Taxable Years Beginning In:	Amount:
1982 and 1983	$ 5,000
1984 and 1985	$ 7,500
After 1985	$10,000

Qualifying property generally constitutes recovery property used in a trade or business which would have qualified for investment tax credit in the past. No investment credit is allowed with respect to the expensed amounts.

New Investment Credit Rules Reflect Accelerated Cost Recovery System

Formerly, the amount of Investment Tax Credit was based on the useful life of an asset. Now, the ACRS recovery period is utilized. For qualifying property placed in service after 1980 in the 3 year ACRS class, a 6 percent credit is allowed (i.e., 60 percent of the cost qualifies for the general 10 percent credit). For qualifying property in the 5 year, 10 year and 15 year public utility classes, the full 10 percent ITC is allowed.

Used Property Investment Credit Limitation Raised

The amount of used property that can be eligible for the investment credit is raised from $100,000 to $125,000 for taxable years beginning in 1981, 1982, 1983 and 1984, and to $150,000 thereafter.

Special ."at risk" Limitations

Investment Tax Credit (ITC) for taxpayers involved in most activities is limited to amounts "at risk" i.e., amounts for which the taxpayer is personally liable at the close of the year. A minimum "at risk" (personal liability) investment of at least 20 percent of the property's basis (25 percent for energy property) is required to claim the credit. Subsequent increases (or decreases) in the amount "at risk" allow additional (or require recapture of) ITC in the year of change.

Additional Provisions

The ITC carryover (but not carryback) period for unused net operating losses and investment credits is extended, generally, to 15 years from the present 7. The extended loss carryover period can be utilized for any net operating losses originally generated in years ending after December 31, 1975, and to unused investment credits carried from years ending after December 31, 1973. Progress investment credits are now allowed for constructed property even if the useful life of such property is less than 7 years, and storage facilities used in the distribution of petroleum products are now eligible property.

II. Investment Tax Credit (ITC) for Rehabilitation Expenditures

New Rates

Because the Accelerated Cost Recovery System (ACRS) does not necessarily encourage rehabilitation of older structures, increased Investment Tax Credit (ITC) is provided for rehabilitation. Usually effective for expenditures incurred after December 31, 1981, the present 10 percent investment credit, the energy credit, and the optional historic structure amortization provisions are replaced by a tax credit under the following schedule:

Structure Classification	Tax Credit Percentage
Nonresidential structures:	
"30 year" (30-39 years old)	15
"40 year" (at least 40 years old)	20
"Certified historic structures" (whether residential or non-residential)	25

The credit is available only if straight-line (optional) depreciation is chosen. The rehabilitation during a 24-month period must be "substantial" i.e., exceed the greater of (1) the adjusted tax basis of the property at the beginning of such period, or (2) $5,000. The credits allowed reduce the depreciable basis of the building, except for historic structure credits. The credit is available for the portion of a rehabilitated building leased to the tax exempt organizations or governmental units, and the effective date for these structures is July 30, 1980. This is a new allowance provided for in the Act.

Lease Financing

The recovery property will be depreciable by the lessor under the following conditions:

The lessor must be a corporation, a partnership or corporations, or certain grants or trusts;

Both parties to the lease must elect for this effect;

The lessor must have at risk - i.e., personal liability at end of the year - of 10 percent of the asset cost during the lease period; and the lease terms cannot exceed the greater of 90 percent of the useful life of the property or 150 percent of the existing Accelerated Depreciation Rate (ACR) class life of such property.

III. Research and Development Incentives

Credit for Incremental Research Costs

A 25 percent credit is provided for incremental research expenditures paid or incurred after June 30, 1981, with the exception of the following activities: research outside the U.S.; research in the social sciences or humanities; and research funded by others.

In no event can the "base" period (generally the prior 3 years) expenses be less than 50 percent of the qualified expense for the determination year. For example, in order for a business to have $10,000 of qualified research expenses in 1982, the sum of research expenditure for years 1979, 1980, and 1981 must be at least $5,000. Qualified research includes:

- 100 percent of "in-house" research (i.e., wages, supplies, and certain amounts paid for use of personal property in research activities);

- 65 percent of "contract" research (e.g., to a research firm or university);
- 65 percent of corporate grants to certain educational and other special research organizations for "basic" research.

The tax credit is limited to tax liability. A 3 year carryback and 15 year carryover of unused credits is permitted. Controlled groups of corporations and other businesses under common control are treated as one taxpayer for purposes of the credit. R & D (Research and Development) expenses are aggregated, and credits are allocated among group members. Furthermore, credits may be passed through to shareholders of Subchapter S corporations, and to trust and estate beneficiaries.

Charitable Contributions of Scientific Property Used for Research

Under prior law, deductions by corporations for contributions of property - the sale of which would result in ordinary gain - to charity were limited to the cost basis of the contributed property. To provide a greater tax incentive for contributions of research property to certain educational organizations, the law now allows an increased deduction for "qualifying" contributions made after August 13, 1981 by corporations.

The allowable deduction is equal to the donor's cost basis plus 50 percent of any appreciation in its value, subject to the following specifications:

The deduction is limited to twice the cost basis of the property; the donee must be an institution of higher education; the property must be constructed by the donee, and contributed within 2 years after construction; the property must be scientific equipment or apparatus, the original use of which by the donee is largely or wholly for research, or for research training, in physical or biological sciences in the U.S.; and, the property must not be subsequently transferred by the donee in return for money, property or services.

Effect of Research and Development on Foreign Tax Credit

For the first two taxable years beginning after August 13, 1981, taxpayers no longer have to allocate a portion of their Research and Development expenditures against foreign source income for purposes of calculating the limit on their foreign tax credit. During these 2 years, these R & D expenditures will be allocated in full against income from U.S. sources.

IV. Incentive Stock Options

The incentive stock option provisions permit employees again to receive, with the potential of long-term capital gains, compensation in the form of options to acquire employer stock. Generally, the employer must forego a compensation deduction, however.

Tax Treatment

The treatment is similar to that for former qualified stock options (i.e., the employee is not taxed at time of an option's grant or upon exercise, and long-term capital gain is recognized upon a "qualifying" sale).

Holding period requirements are that the stock cannot be sold within 2 years of the grant of the option and the stock itself must be held for at least one year. When these requirements are met, the gain will be taxed as long-term capital gain. If holding period requirements are not met, the gain upon sale will be taxed as ordinary income rather than capital gain with an offsetting deduction to the employee at that time. Employees are also favorably effected by the extended maximum term - previously 5 years, now 10 years - of the incentive option.

The most significant less favorable feature of the incentive option is the dollar limit on the amount of stock that can be optioned to any employee in a year. Effective on options granted after December 31, 1980, the aggregate fair market value of stocks for which employees may be granted incentive stock options cannot exceed $100,000 plus any unused limit carryover (1/2 the excess yearly of $100,000 over fair market value of stocks granted).

Sequential Exercise Rule

Incentive stock options must provide by their terms that the option is not exercisable while there is still outstanding any incentive stock option granted earlier. An option is considered to be outstanding until it is exercised in full or expires by reason of lapse of time. Any unexercised portion of an outstanding previously granted incentive stock option, regardless of price, will block exercise of any portion of a later granted option. There is a maximum 90 day period after termination of employment to exercise incentive stock options.

An employee may now pay the option price with any stock of the employer granting the option.

Effective Dates

Generally, the new rules are immediately applicable to any options granted after 1975 and exercised after 1980.

V. Crude Oil Windfall Profit Tax Provisions

Royalty Owner's Credit

The Act provides individuals, estates and qualified farm corporations with a credit (or refund) of up to $2,500 against their windfall profit tax imposed on their royalty income for the calendar year 1981.

Reduction in Tax Imposed on Newly Discovered Oil

The law reduces the tax rate (on a phase-in basis) for "newly discovered" oil from the current 30 percent to 15 percent by 1986 as follows:

Taxable Windfall Profit Tax Quarters In:	Rate (Percent)
1982	27 1/2
1983	25
1984	22 1/2
1985	20
1986 & thereafter	15

Exempt Stripper Oil

The law exempts from the Windfall Profits Tax, beginning in 1983, stripper oil production attributable to working interests of independent producers.

IV. Other Business Provisions

Changes in Corporate Estimated Tax Payments

Legislation enacted during 1980 required certain "large" corporations to make estimated payments equal to a minimum of 60 percent of the current year's liability, regardless of the prior year's liability. Under the new law, the minimum payment has been increased according to the following table:

Taxable Years Beginning In:	Applicable Percentage
1982	65
1983	75
1984 & thereafter	80

"Large" corporations are defined as ones with at least $1 million in taxable income in any of the preceding three years.

Corporate Rate Reduction

The tax on the first $50,000 of corporate income is reduced as follows:

Taxable Income	Current Law	Taxable Years Beginning in 1982	Taxable Years Beginning After 1982
1st $25,000	17%	16%	15%
2nd $25,000	20%	19%	18%

The maximum annual tax savings from current law is $500 for years beginning in 1982, and $1,000 for years beginning after 1982.

The personal holding company tax rate is reduced from 70% to 50%.

Extension of Carryover Periods

Carryover periods of net operating losses in taxable years ending after 1975 have been increased from 7 to 15 years. This 15 year period applies to regulated transportation companies and to specified insurance companies. Losses incurred by real estate investment trusts in taxable years ending after 1972 has been increased in carryover from 8 to 15 years.

The carryover periods for Investment Tax Credits, work incentive program credits (WIN), and new employee credits has also been increased from 7 to 15 years.

Corporate Charitable Contributions

The annual limitation on a corporation's charitable contributions deduction increases from 5 percent to 10 percent of taxable income.

Increase in Minimum Accumulated Earnings Credit

Previously, a corporation might be subject to accumulated earnings tax if its retained after-tax earnings exceeded the greater of (1) a cumulative minimum credit of $150,000, or (2) "the reasonable needs of the business". Since increased borrowing costs have caused small businesses to rely on internally generated funds for financing, the minimum accumulated earnings credit (deduction from retained after-tax earnings) has been increased to $250,000.

Subchapter S Corporation Shareholders

Under present law, a Subchapter S corporation cannot have more than 15 shareholders. The Act increases the permissable number of shareholders to 25 and expands the definition of eligible shareholders to include: certain trusts where a person other than the grantor is treated as the owner of the trust, and "qualified Subchapter S trusts" as well as the previously specified grantor trusts, stock voting trusts, and certain testamentary trusts.

Generally, a "qualified Subchapter S trust" is one in which the individual beneficiary elects to be treated as the (taxable) owner. The trust must distribute all its income currently to a U.S. citizen or resident, and there can only be one income beneficiary at any time.

LIFO ("Last In, First Out") Inventory Accounting

Under the LIFO method of accounting, current costs of goods purchased or produced are charged against current income as cost of sales, providing a means of reducing taxes in inflationary periods.

The Act simplifies LIFO calculations to encourage adoption of this method.

A qualifying small business may now elect (without IRS consent) to use only 1 dollar-value LIFO pool for its trade or business (instead of dollar values of different product lines). In order to be eligible, the business must be one in which the average annual gross receipts are less than $2,000,000 for the 3 year period terminating with the current taxable year.

LIFO Inventories are required to be stated at cost, and taxpayers using LIFO must restore (i.e., include in taxable income) market writedowns taken in computing inventory values at the end of the year preceding the first LIFO year. Previously, these restorations were made in an amended return for the preceding year, and applicable tax and interest was paid for that year. The Act provides for the restoration of such market writedowns ratably over a 3 year period beginning with the first LIFO year.

Under the Act, the Treasury has been directed to prescribe regulations permitting the use of suitable published government indices for LIFO computations.

Targeted Jobs Tax Credit Extended and Changed

The credit (50 percent of the first $6,000 of first year wages and 25 percent of the first $6,000 of second year wages of "targeted" employees) has been extended one year; i.e., wages paid to eligible employees hired before January 1, 1983 will qualify.

Aid to Families with Dependent Children (AFDC) recipients and Work Incentive Program (WIN) registrants are added as targeted groups. The prior provision limiting qualified "first year" wages to 30 percent of aggregate Federal Unemployment Tax Act (FUTA) wages paid to all employees, is eliminated.

PART III

PROVISIONS AFFECTING THE STATE OF ALASKA

Introduction

The Economic Recovery Act of 1981 primarily affects state revenues through the application of the new Accelerated Cost Recovery System (ACRS) rates to corporate revenues.

I. Effect on Non-Petroleum Corporate Revenues

Non-petroleum corporate revenues, which represent approximately 4% of corporate revenues for the State of Alaska, will decline as a result of the changes in the new Accelerated Cost Recovery System (ACRS) of depreciation which the State of Alaska adopts. The State of Alaska's current tax statutes provide for automatic adoption of federal depreciation changes because these tax laws are based on the Internal Revenue Code. Only an amendment of these tax statutes would allow the state to not follow the federal depreciation changes.

These revenues will also decline because tax rates have been converted to a sliding scale with effective rates lower for most corporations.

Non-petroleum corporate revenues are projected to decrease in the following ways:

	1982	1983	1984
Due to ACRS changes:	-5%	-10%	-15%
Due to tax rate changes:	-10%	-12%	-11%

Estimates for non-petroleum corporate revenue following the application of the ACRS rates and sliding scale rates are:

1982	1983	1984
$31.0 million	$35.0 million	$39.0 million

II. Effect on Petroleum Revenues

Petroleum revenues, representing approximately 96% of corporate revenues, are excluded from the Economic Recovery Act changes in tax law, and therefore, these revenues are not changed by the provisions of the Act. Chap. 116, SLA 1981 specifies that taxation of petroleum revenues shall be determined and paid in accordance with sections of Chapter 116.

III. Effect on Investment Tax Credits

The State of Alaska adopts the federal provisions of the Economic Recovery Act. As of January 1, 1982, the ceiling for investment tax credits has been raised from $50,000 to $20 million. Provisions for these credits and for recapture are much more generous, and the effect will be dramatically increased use of these credits by businesses.

IV. Effect on Estate Taxes

Estate taxes will decline due to provisions of the Economic Recovery Act. The estate tax provisions dramatically alter estate tax revenues. Currently, however, estate tax revenues are a very small portion of state revenues.